

Message Text

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PAGE 01 LIMA 00409 01 OF 02 151402Z

41

ACTION EB-07

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LIMITED OFFICIAL USE SECTION 1 OF 2 LIMA 0409

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SUBJECT: MTN: TROPICAL PRODUCTS NEGOTIATIONS--PERU

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SUMMARY

PERU ADMINISTERS A COMPLEX SERIES OF NTBS COMBINED WITH RELATIVELY HIGH AD VALOREM DUTY RATES. DESPITE THESE OBSTACLES U.S. EXPERTS TO PERU HAVE SHOWN VERY SHARP INCREASE DURING 1975. NEGOTIATIONS TO REDUCE BARRIERS TO TRADE WILL BE VERY DIFFICULT GIVEN PERU'S BALANCE OF PAYMENTS PROBLEMS AND NEED FOR REVENUES
END SUMMARY

INTRODUCTION

AS REPORTED PREVIOUSLY PERU NOW HAS COMPLEX SYSTEM OF DIRECT

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PAGE 02 LIMA 00409 01 OF 02 151402Z

AND INDIRECT CONTROLS OVER FOREIGN TRADE. DIRECT CONTROLS

INCLUDE FOREIGN EXCHANGE CONTROLS, IMPORT QUOTAS, PROHIBITED IMPORTS LISTS, CREDIT REQUIREMENTS FOR PURCHASES ABOVE CERTAIN AMOUNTS, DIRECT STATE PARTICIPATION IN FOREIGN TRADE, ETC. INDIRECT CONTROLS INCLUDE RESTRICTIONS ON FOREIGN INVESTMENTS, QUALITY AND HEALTH CONTROLS PROCEDURES FOR PUBLIC SECTOR TENDERS THAT MAKE IT DIFFICULT FOR FOREIGN SUPPLIERS TO PARTICIPATE FULLY, ETC. DESPITE THESE OBSTACLES, U.S. EXPORTS HAVE SHOWN A VERY SHARP INCREASE DURING THE LAST TWO YEARS. DURING JANUARY-SEPTEMBER 1975, U.S. EXPORTS TO PERU REACHED \$704 MILLION, AN INCREASE OF \$256 MILLION (EQUIVALENT TO 56 PERCENT) OVER THE SAME 1974 PERIOD. PERU IS NOW THE FOURTH LARGEST CUSTOMER OF THE U.S. IN ALL OF LATIN AMERICA. FROM A TRADITIONAL SMALL TRADE SURPLUS WITH THE U.S., PERU NOW FACES A TRADE DEFICIT OF APPROXIMATELY \$450 MILLION IN 1975. OVERALL, PERU HAD A TRADE DEFICIT IN 1975 OF OVER \$1 BILLION.

THE GOP HAS ANNOUNCED A NEW AUSTERITY PROGRAM. THESE NEW MEASURES INCLUDE FURTHER RESTRICTIONS ON IMPORTS. IN FACT, THE RECENT GATT BALANCE OF PAYMENTS REVIEW OF PERU ACCEPTED THE PRESENT SYSTEM OF CONTROLS AS JUSTIFIED GIVEN PERU'S CURRENT ECONOMIC SITUATION.

ANOTHER FACTOR TO CONSIDER IN ASSESSING POSSIBLE TARIFF CONCESSIONS IS PERU'S RELATIONSHIP TO THE ANDEAN COMMON EXTERNAL TARIFF FOR MEMBER COUNTRIES.

GIVEN THE ABOVE FACTORS, PERU WOULD BE RELUCTANT TO DISCUSS MAJOR TARIFF CONCESSIONS IN THE SHORT OR MEDIUM TERM. IT APPEARS THAT THERE WOULD ALSO BE OPPOSITION TO ANY RELAXATION OF THE GOP'S VERY SUBSTANTIAL DIRECT PARTICIPATION IN FOREIGN TRADE. FOLLOWING ARE SUGGESTED REQUESTS WHICH WE MIGHT CONSIDER MAKING OF PERU IN RETURN FOR U.S. TARIFF CONCESSIONS IN THE MTN. AS CAN BE SEEN, THESE IDEAS DEAL PRINCIPALLY WITH NTBS RATHER THAN DUTY REDUCTIONS AS SUCH, SINCE PERU WILL ALMOST CERTAINLY PLEAD THE NECESSITY TO MAINTAIN REVENUES FOR TARIFFS.

GOVERNMENT PROCUREMENT PRACTICES:

1. ELIMINATION OF THE "TWO ENVELOPE" SYSTEM WHICH IS AN LIMITED OFFICIAL USE

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PAGE 03 LIMA 00409 01 OF 02 151402Z

AWKWARD AND OUTDATED METHOD THAT DOES LITTLE TO PROTECT INTERESTS OF GOVERNMENT OR OF BIDDERS.

2. ACCEPTANCE OF PERFORMANCE BOND RATHER THAN ACTUAL GUARANTEE DEPOSIT IN CASH SINCE THIS REQUIREMENT MERELY ADDS TO COST OF BIDDERS.

3. INCREASE IN ADVANCE NOTIFICATION REQUIREMENT. AT

PRESENT, EXCEPT FOR MAJOR INTERNATIONAL PROJECTS, MOST TENDER NOTICES ARE PUBLISHED LESS THAN ONE MONTH BEFORE BIDS ARE TO BE PRESENTED. THIS AFFORDS LITTLE TIME FOR U.S. (OR OTHER) COMPANIES TO PARTICIPATE.

GOVERNMENT CONTROL OF FOREIGN TRADE:

1. GOP HAS ASSUMED GREATER DIRECT ROLE IN IMPORTATION OF COMMODITIES. INITIALLY, RETIONALE WAS TO HANDLE IMPORTATION OF BASIC COMMODITIES THAT ARE ESSENTIAL TO ECONOMIC ACTIVITY AND WHICH MIGHT BE IN SHORT SUPPLY AND ALSO TO INCREASE ABILITY TO BARGAIN ON PRICE AS SOLE PURCHASER FOR COUNTRY. LATELY THIS REQUIRMENT HAS BEEN EXTENDED TO INCLUDE WHISKEY, COOKIES, WINE, CHEESE, ETC. TO PREVENT "SPECULATION", ALTHOUGH THE REAL REASON IS PROBABLY TO REDUCE THESE IMPORTS WHICH ENTER IN SUBSTANTIAL QUANTITIES FROM ANDEAN PACT COUNTRIES AND WHICH CANNOT BE CONTROLLED BY EXISTING IMPORT CONTROLS BECAUSE OF LEGAL ANDEAN PACT COMMITMENTS. THIS DIRECT GOVERNMENTAL INTERVENTION IN IMPORT TRADE DISTORTS NORMAL IMPORT CHANNELS AND PROVIDES WAY TO CONTROL AMOUNT OF IMPORTS.

2. THE PRESENT IMPORT CARD SYSTEM (WHICH AMOUNTS TO IMPORT QUOTA SYSTEM BASED ON VALUE) IS ADMINISTERED IN SUCH A INEFFICIENT AND BUREAUCRATIC WAY THAT IT IN EFFECTS CREATES THE VERY PROBLEM IT IS MEANT TO OVERCOME. THAT IS, THE IMPORTERS TEND TO BUY ITEMS WHICH PROVIDE THE GREATEST RATE OF RETURN, RATHER THAN THE MOST NEEDED ITEM.

3. UNEXPECTED AND UNREASONABLE CHANGES IN REGULATIONS CAUSE UNWARRANTED INTERRUPTIONS IN IMPORTS. MANY OF THESE CHANGES ARE FOR BUREAUCRATIC REASONS AND ARE HIGHLY LIMITED OFFICIAL USE

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PAGE 04 LIMA 00409 01 OF 02 151402Z

DISRUPTIVE TO TRADE.

4. BESIDES A LONG LIST OF PROHIBITED IMPORTS (LUXURY ITEMS, ETC.) REGISTRATION IN THE INDUSTRIAL REGISTER MEANS THAT IMPORTS OF SIMILAR ITEMS ARE PROHIBITED. THIS SYSTEM IS DESIGNED TO PROTECT INFANT INDUSTRY. THE ADMINISTRATION OF THIS STANDARD, HOWEVER, IS VERY DIFFICULT AND SOME DOMESTIC MANUFACTURERS ABUSE THIS SYSTEM. THE OVERALL ECONOMY SUFFERS, THEREFORE, BECAUSE IT HAS TO GIVE UP IMPORTS OF NEEDED EQUIPMENT OR IT HAS TO USE LOWER QUALITY AND HIGHER PRICED DOMESTIC EQUIPMENT.

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PAGE 01 LIMA 00409 02 OF 02 151411Z

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC 8381

INFO USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 2 OF 2 LIMA 0409

CUSTOM DUTIES AND OTHER CHARGES:

1. PERUVIAN CUSTOMS DUTIES TEND TO BE HIGH (UP TO 192 PERCENT) AD VALOREM) WITH ADDITIONAL SALES TAXES LEVIED IF APPLICABLE. THERE ARE, HOWEVER, NUMEROUS EXEMPTIONS FOR PREFERRED INDUSTRIES. THESE HIGH PRIORITY INDUSTRIES SOMETIMES ONLY PAY 10 PERCENT OF NORMAL DUTIES ON IMPORTED CAPITAL GOODS. IT IS DIFFICULT, THEREFORE, TO ESTIMATE THE IMPACT OF ANY PROPOSED DUTY REDUCTIONS IN ABSOLUTE TERMS. AS EXPLAINED IN THE INTRODUCTION, THE U.S. CANNOT COMPLAIN THAT ITS TRADE WITH PERU IS NOT GROWING. ELIMINATION OF CONSULAR CERTIFICATION FEES (WHICH ARE AT NUISANCE LEVELS) COULD BE JUSTIFIED ON THE BASIS THAT CONSULAR INVOICES ARE NO LONGER REQUIRED.

2. ELIMINATION OF THE 2 PERCENT AD VALOREM STATISTICAL CHARGE COULD ALSO BE JUSTIFIED ON THE BASIS OF ITS NUISANCE VALUE AND BECAUSE THE GOVERNMENT'S IMPORT STATISTICAL SYSTEM HAS COLLAPSED AND PROVIDES NO USEFUL INFORMATION.

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PAGE 02 LIMA 00409 02 OF 02 151411Z

OTHER OBSTACLES TO TRADE

1. BECAUSE OF A DESIRE TO REDUCE DEPENDENCE ON THE U.S. AS A SUPPLIER AND BECAUSE OF ITS NEED FOR FOREIGN FINANCING, THE GOP TENDS TO MAKE IMPORT DECISIONS ON THE AVAILABILITY OF BILATERAL FINANCING WITHOUT ANY ATTEMPT TO DETERMINE IF OTHER PROCUREMENT WOULD BE BETTER FOR PERU ON A QUALITY OR PRICE BASIS. THIS POLICY IS DISRUPTIVE TO NORMAL IMPORTS.
2. GOVERNMENT RELUCTANCE TO COMPENSATE SYSTEMATICALLY WITH ITS OWN PROVISIONS OF REPATRIATION OF CAPITAL FOR FOREIGN INVESTORS, EITHER BECAUSE OF FOREIGN EXCHANGE PROBLEMS OR BECAUSE OF A RELUCTANCE TO SEE PROFITS REPATRIATED, DISCOURSES DIRECT U.S. FOREIGN INVESTMENT AND THUS INDIRECTLY, U.S. EXPORTS TO PERU. IN ADDITION, THE GOP REFUSES TO ALLOW THE AUTOMATIC REINVESTMENT OF 5 PERCENT PER YEAR OF INVESTED CAPITAL AS PROVIDED IN CURRENT LEGISLATION. FOLLOWING THE PRINCIPLE THAT TRADE FOLLOWS INVESTMENT, ANY IMPROVEMENT IN ENCOURAGING U.S. PRIVATE DIRECT INVESTMENT SHOULD ASSIST IN INCREASING IMPORTS FROM U.S.

COMMENT:

AS DESCRIBED ABOVE, THE CURRENT PERUVIAN TRADE CONTROLS ARE CHARACTERIZED BY RELATIVELY HIGH TARIFFS AS WELL AS A LONG LIST OF NTBS. THE PERUVIAN GOVERNMENT HAS WELL TRAINED ECONOMISTS WHO ARE AWARE OF THE THEORETICAL ADVANTAGE OF TARIFFS, EVEN AT A HIGH LEVEL, OVER OTHER TYPES OF DIRECT TRADE CONTROLS IN CONTRIBUTING TO AN EFFICIENT ALLOCATION OF RESOURCES. THE FACT IS, HOWEVER, THAT BECAUSE OF ITS IDEOLOGICAL BIAS, THE GOP HAS PREFERRED TO IMPOSE DIRECT CONTROLS BECAUSE THIS CONTRIBUTES TO THE GROWTH OF THE PUBLIC SECTOR AT THE EXPENSE OF THE PRIVATE SECTOR. IN VIEW OF THIS ATTITUDE, DISCUSSIONS OF MEANINGFUL TARIFF OR NTB CONCESSIONS WILL BE DIFFICULT.

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